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**CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE**

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THE IRANIAN SITUATION

The assumption by Prime Minister Mossadeq of near dictatorial powers to carry out economic and social reforms, if successfully maintained, will shift the traditional control of the Iranian government from the army and landlords to a nationalist-oriented middle class. Despite the overwhelming public sentiment which swept him back into office on 22 July, Mossadeq is facing difficulty in obtaining full cooperation from the Majlis and Senate, and there are continued signs of cracks in the National Front which a further deterioration in Iran's internal condition might widen.

Mossadeq does not favor any increase of power for Mullah Kashani, the nationalist leader, and was dismayed when the Majlis elected him to its presidency. Unless the Prime Minister can secure and keep some measure of support from Kashani, it will be impossible to prevent a split in the National Front, which might open the door to the Tudeh.

It was National Front pressure which forced the Shah to appoint Mossadeq Minister of National Defense and placed the Prime Minister in a position to reduce the Army's size and influence and subvert its loyalty from the throne. The army itself, already disheartened by the Shah's inaction and now increasingly led by officers who owe their present position to the National Front rather than the Shah, will be less effective and less able to maintain public order.

Even if Mossadeq's program is successful, Iran cannot achieve a balanced economy without oil revenues. Recognizing this, the Prime Minister has again approached the British on reopening oil discussions. He is, however, no more willing to compromise than previously. The favorable International Court decision has spurred world-wide interest in purchasing Iranian oil and will encourage the Iranian hope that the blockade on oil exports can be broken. Iran is continuing negotiations with potential purchasers in Western as well as Orbit countries.

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